Program Evaluation

PERSONNEL PILOT PROJECTS: DESIGN WEAKNESS LIMITS EFFECTIVENESS

Adopted by Program Review and Investigations

PROGRAM REVIEW & INVESTIGATIONS

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FOREWORD

In September 1999, the Program Review and Investigations Committee directed staff to review The Personnel Pilot Projects. This report was adopted by the Committee on October 14, 1999, and submitted to the Legislative Research Commission.

This report is the result of dedicated time and effort by the Program Review staff, Tom Hewlett and LRC intern Cory Birdwhistell. Our appreciation is also expressed to the Personnel Cabinet and all other persons interviewed for this study.

Robert Sherman
Director

Frankfort, Kentucky
October 1999

TRANSMITTAL MEMORANDUM

TO: The Honorable Paul E. Patton, Governor
The Legislative Research Commission
Personnel Cabinet and Interested Parties

FROM: Rep. H. G. "Gippy" Graham, Chair
Sen. Marshall Long, Co-Chair

DATE: June 12, 2000

RE: Committee Report--Personnel Pilot Projects:
Design Weakness Limits Effectiveness

Attached is the final adopted report and recommendations of a study of Personnel Pilot Projects: Design Weakness Limits Effectiveness. The study reviewed the oversight, selection, and evaluation of the pilot personnel projects as well as the performance of the individual pilots.

This review determined that, in general, the design of most pilot projects was not sufficient to control for external factors that could have contributed to the results observed in each pilot. Thus, the precise effects of most pilots cannot be determined with sufficient confidence to merit expanding the piloted innovations throughout state government. Pilot projects, however, offer the opportunity to test promising ideas and determine their worth before expanding those ideas statewide. Staff therefore recommends that pilot projects be allowed in the future. Any future consideration of pilot projects, however, should include rigorous up-front planning for evaluating the effectiveness of the pilot projects' results. Such evaluations would be strengthened by limiting the scope of piloted innovations; limiting duplication among the pilot projects to only those innovations that shall be compared across pilots; impartial, third-party surveys of employees affected by the pilots; and the use of comparison groups to strengthen the experimental design of the pilots. Future pilots should include a rigorously controlled pilot examining the effectiveness of a limited number of changes to the state's personnel evaluation system, one of the concepts most frequently addressed by the recently concluded personnel pilot projects

TABLE OF CONTENTS

Foreword i

Transmittal Memorandum iii

Executive Summary 1

Chapter 1: Background 5
The Governor's Commission on Quality and Efficiency Calls for Pilot Projects 7
1994 Regular Session Creates Pilot Project Legislation 7
Personnel Steering Committee Created as Pilot Oversight Body 8
Employee Protections Maintained Within The Personnel Pilot Projects 9
10 Pilot Projects Approved and Implemented 11
Pilot Projects Discontinued After 1998 Regular Session 11
Scope and Methodology 12

Chapter 2: Weakness in the Design of the Pilot Projects Limits Evaluation of Effectiveness 15
Comparison Groups 16
Federal Projects Provide Model 18
Comparison Groups Are Not Always Feasible 20
Limit the Scope of Pilots 20
Limit the Number of Pilots Assessing the Same Factors in Different Ways 21

Recommendations: 1 through 3 23

Chapter 3: The Individual Pilot Projects 25
Department of Social Insurance, Division of Disability Determination 25
Kentucky Veterans Center 27
Department for Social Services, Division of Family Services 29
Vocational Rehabilitation and The Department for the Blind 31
The Personnel Cabinet 40
Revenue Cabinet, Division of Revenue Operation 41
Natural Resources and Environmental Protection Cabinet 43
Summary Observations from The Pilot Projects 45

Recommendations: 4 through 7 46

LIST OF TABLES

1. Pilot Project Summary Descriptions 6
2. Number of Permanent Full-Time Employees in Units Applying for Personnel Pilot Projects 11
3. Department of Social Insurance, Division of Disability Determinations Frankfort and Louisville 26
4. Kentucky Veterans Center 27
5. Department for Social Services, Division of Family Services, Louisville 30
6. Workforce Development Cabinet, Department for Vocational Rehabilitation Statewide 32
7. Workforce Development Cabinet, Department for the Blind 33
8. Personnel Cabinet, Frankfort 41
9. Revenue Cabinet, Division of Revenue Operations 42
10. Department of Environmental Protection, Water Quality Branch, Frankfort 43
11. Department of Surface Mining, Division of Abandoned Lands, Frankfort 44
12. Department of Environmental Protections, Solid Waste Branch, Frankfort 44

LIST OF CHARTS

Figure A. Pilot Application Process 10
Figure B. Frequency of Piloted Changes 22
Figure C. Kentucky Veterans Center Employee Retention Rates 29
Figure D. Social Security Reimbursements 35
Figure E. Vocational Rehabilitation Clients Placed in Employment 36
Figure F. Department for the Blind Client Placements 37
Figure G. Department for Vocational Rehabilitation Clients Served Per Staff Person 38
Figure H. Department for the Blind Clients Served Per Staff Person 39

EXECUTIVE SUMMARY

In 1994 the General Assembly authorized the creation of personnel pilot projects as a way to experiment on state personnel practices on a small scale. Pilots were to model practices that created high performance workplaces in the interest of improving service to the citizens of the Commonwealth. Ten pilot projects were eventually approved and implemented. All pilot projects were discontinued by July 15, 1998.

As field experiments, it is crucial that pilots are designed in such a way that any changes in overall performance can be attributed solely to the innovations of the pilot and not to any external causes. Staff found, however, that the design of most of the pilot projects did not generally control for external factors. Consequently, the precise effect of the individual pilots cannot be determined. Without the ability to determine the effect of the pilots, it is not possible to evaluate the merits of expanding the innovations piloted throughout state government.

The ten pilot projects varied greatly in the number of employees affected and the number of innovations introduced. Many pilots addressed similar issues; however, no attempt was made to compare the effectiveness of different approaches to the same issue. The two features most commonly piloted were changes to the state's personnel evaluation system and the state's method for rewarding employee performance. Staff recommends that future pilot projects include a rigorous, well-controlled pilot to examine the effectiveness of changing the current employee evaluation and compensation system. Additional recommendations are included to improve future pilots of state personnel practices.

Recommendations

1. **Pilots should be permitted in the future as a method of experimenting with the state's personnel system. Any future consideration of pilot projects, however, should include rigorous up-front planning for evaluating the effectiveness of the pilot project's results, including the use of general principles of evaluation**

design, and for returning employees to the regular personnel system when the pilot ends.

The purpose of a pilot project is to try out an idea on a small scale before extending the idea throughout the organization or across multiple organizations. Innovations to the state's personnel system can be tried and, if found to have merit, can be extended throughout state government with minimum risk. Without an adequate evaluation of a pilot's results, however, the effectiveness of piloted ideas cannot be determined and the merits of extending the pilots cannot be adequately weighed. Any future pilots must be rigorously designed using the best principles of social research methods and the general principles of evaluation design so that the effectiveness of the pilots may be determined.

2. **Any future plan for pilot projects should consider the scope of each pilot and limit the number of changes allowed to promote a better understanding of the pilot's cause-and-effect relationships.**

When a large number of revisions are introduced in a single pilot, it becomes very difficult to determine which factor caused any observed changes in performance. Pilots should be limited to include only a small number of changes in the operations of the agency.

3. **Any future consideration of pilot projects should limit the amount of duplication among the pilots, while still providing the opportunity to test variations of similar ideas.**

When pilots propose to address similar issues, an oversight body must determine if it is in the best interests of the Commonwealth to address the same issue in more than one manner. Where the oversight body finds it is in the interest of the Commonwealth,

comparable outcome measures must be included in each of the pilots involved to promote an effective comparison of approaches.

4. **Any future consideration of pilot projects should include a provision for an impartial, third-party survey of the staff affected by proposed pilots.**

One of the key criteria the Steering Committee focused on for pilot approval was surveys of staff conducted by an independent, third-party entity (the Governmental Services Center). Employees were assured that their responses would be anonymous. Such surveys could also be used throughout a pilot to provide useful information about staff morale and staff assessments of the effectiveness of the pilot.

5. **Any future pilot program should include a rigorously controlled pilot with comparison group measures to assess the effectiveness of a limited number of innovations to the state's personnel evaluation and compensation system.**

Revisions to the current method of personnel evaluation and compensation were the most frequently piloted concepts. Members of both the Steering Committee and the pilot projects told staff the current system of evaluating and rewarding employees is not effective. The Governor's Commission on Quality and Efficiency reached similar conclusions in 1993. A future pilot program in this area should be considered. Any proposed pilot, however, should be rigorously designed using standard evaluation protocols and be independently monitored to allow valid conclusions to be drawn regarding the effectiveness of its innovations.

6. **The legislature should consider flexible reporting requirements for any future pilot projects. Reporting requirements should be structured based upon the characteristics of the individual pilots.**

Members of both the Steering Committee and the pilot projects told staff that quarterly reporting was not practical in all situations. Should the legislature consider permitting

future pilot projects, it should consider reporting requirements structured to the data availability of each pilot.

7. **Any oversight body of future personnel pilot projects should establish a minimum number of employees required to participate in order for a pilot to be approved. To be effective, pilots should have a sufficient number of employees to allow results to be generalized to the state government as a whole.**

Pilots were intended to provide field experiments whereby innovations could be tried and their effectiveness determined. If effective, these innovations could then be extend throughout state government for the benefit of the citizens of the Commonwealth. Pilots that are too small do not provide an adequate case to determine if the innovations could be extended to a larger population.

CHAPTER 1
BACKGROUND

In 1994, responding to concerns about personnel issues raised by the Governor's Commission on Quality and Efficiency, the General Assembly passed SB 221, providing agencies with an opportunity to experiment upon the state's personnel system by developing personnel pilot projects. Pilot projects are small field experiments which allow ideas to be evaluated on a small scale before they are applied on a larger scale. According to SB 221, pilots were necessary to determine and define new methods of quality management and to develop a new personnel system that would motivate employees to achieve their maximum performance for the citizens of the Commonwealth. SB 221 also created the Personnel Steering Committee to select and evaluate the individual pilot projects.

Ten pilot projects were eventually approved by the Steering Committee and implemented into administrative regulation. [1] The ten projects are summarized in Table 1. SB 221 authorized the pilots to continue for four years. Legislation to continue the projects was introduced in the 1998 General Assembly, but was not adopted. Therefore, all pilot projects were terminated as of July 15, 1998.

The purpose of this report is to review the oversight, selection, and evaluation of the pilot personnel projects as well as the performance of the individual pilots. Chapter 2 presents staff concerns about the evaluation process and offers recommendations about ways of strengthening the selection and evaluation of any future pilot projects. Chapter 3 reviews the individual pilot projects and offers recommendations for consideration in developing any future pilot projects.

[1] Technically 11 projects were approved and implemented. The DFB piloted two similar projects that applied and were accepted as pilots at different times. The Business Enterprises Division within DFB submitted a pilot project design somewhat later than the rest of the agency, with different job descriptions, but with other changes virtually identical to the larger DFB pilot. We have treated the DFB pilot as a single project throughout this report.

Table 1
Pilot Project Summary Descriptions [1]

Department	Nature of Pilot	Goals of the Pilot
Disability Determinations	Performance evaluations, incentive pay, customer feedback surveys, travel rules.	No savings to the state, because the division is federally funded, but efficiency is expected to increase through incentive, motivation, and improved performance.
Kentucky Veterans' Center	Pay for performance, shift differential, weekend differential.	Improve recruitment and retention of staff.
Family Services	Hiring/training of new staff, sick leave buy-back, performance bonuses	Reduce vacancy rates, turnover, and duplication. Provide more consistent service and overall quality of services
Vocational Rehabilitation	Broad banding, new hiring practices, incentive pay, performance evaluations, grievance procedures and increased political activity.	Generate savings through increased efficiency and improved productivity. Incentives should encourage the placement of more Kentuckians with disabilities.
Department for the Blind	Broad banding, new hiring practices, incentive pay, performance evaluations, grievance procedures and increased political activity.	Improved customer satisfaction, employee performance, and cost efficiency. Savings through increased efficiency and improved productivity. Increased income levels for individuals served.
Personnel	New performance review process	Increased employee involvement and morale, leading to cost savings, efficiency increases and better customer service.
Revenue Operations	Personnel classification scheme, performance evaluations, incentives bonuses.	Provide better quality service to the taxpayer through improving efficiency and enhancing the Cabinet's capability to recruit, employ, and retain qualified workers.
Environmental Protection, Water Quality	Education incentive program	Cost savings through reduced turnover, better customer service, and better employee motivation.
Environmental Protection, Solid Waste	Education incentive program	Cost savings through reduced turnover, better customer service, and better employee motivation.
Surface Mining, Abandoned Lands	Education incentive program	Increase efficiency, morale, and improved customer service.

Source: Pilot project initial applications.

[1] Appendix A provides a more detailed description of the individual pilot projects.

The Governor's Commission on Quality and Efficiency Calls for Pilot Projects

In March 1993, Governor Brerton Jones established a 55 member Commission on Quality and Efficiency to develop recommendations intended to improve the efficiency and quality of services provided by state government. Members of the commission were drawn from both the public and private sectors. The Commission was divided into seven committees, each with work teams composed of state employees and private sector analysts and managers. The seven committees were fiscal management, government operations, human services, public safety, technology, workforce training, and human resource management (state personnel).

On November 1, 1993, the Commission issued its final report and recommendations on the Commonwealth's personnel management practices. The Commission concluded that,

> the merit system, in its present form, creates a condition which causes the Department of Personnel to function less than effectively in its philosophy, structure and operating methods…this system leaves a significant number of employees thinking they are underpaid and unappreciated…and feeling unchallenged, underutilized, underdeveloped and insecure in their jobs.

The Commission went on to conclude that, "Personnel laws and regulations have become voluminous, confusing, and rigid and restrain agencies' abilities to provide effective public service."

Based on these conclusions, the Commission recommended the implementation of pilot programs in state agencies. The Commission's recommendation called for limiting the program to no more than three pilots, which should not aggregate to more than 10 percent of the total permanent full-time workforce in the Executive Branch. The proposal also recommended limiting the scope of the pilots to 12 months with the option of adding a second 12 months.

1994 Regular Session Creates Pilot Project Legislation

In keeping with concerns raised by the Commission, the 1994 General Assembly granted the authority for agencies to develop personnel pilot projects in SB 221. The bill

was signed into law by the Governor on April 11, 1994. An oversight structure for the pilot projects was included in the provisions of the legislation. Additionally, limitations were placed on the number of employees that could be involved in pilot projects and the disposition of any savings that were generated by the pilots. No more than 15 percent of the state's permanent, full-time employees were to be affected by pilot projects. In addition, 50 percent of any savings generated by the pilots were to be retained by the agencies. At least half of the savings retained by the agencies was to be earmarked for employee salary incentives.

Personnel Steering Committee Created As Pilot Oversight Body

SB 221 also formed a Personnel Steering Committee to oversee the selection of pilot projects and monitor their ongoing progress. Committee members were appointed by the Governor and included two members of the Governor's Commission on Quality and Efficiency, two members from private industry, one member of the Personnel Board, and four employees from state government. Specifically, the Steering Committee was directed to:

- Monitor and evaluate all pilot personnel programs
- Prepare status reports
- Prepare a final report
- Make recommendations for legislation to the 1996 and 1998 General Assemblies; and
- Report at least quarterly to the Legislative Research Commission regarding the amount of money saved by the Pilot Personnel Programs and how the money was to be spent.

In addition, SB 221 required each Executive Branch agency desiring to implement a Personnel Pilot Project to apply to the Personnel Steering Committee for approval to begin the pilot project. Factors the Steering Committee were to consider in granting approval included

- Documentation of support for the pilot from a majority of affected employees
- Improvement in service to taxpayers
- Contribution to the agency's ability to fulfill its statutory mission
- Creation of a high performance workplace
- Identification of benchmarks for measuring the effectiveness of the pilot program
- Inclusion of periodic employee evaluations
- Inclusion of periodic customer evaluations
- Provisions for appropriate manager training
- Provision for appropriate non-manager training
- Sufficiency of fiscal resources
- Sufficiency of personnel resources

The Steering Committee was also given the authority to discontinue a personnel pilot program at any time if the goals and objectives of the pilot were not being met and reasonable attempts at corrective action had failed.

Employee Protections Maintained Within The Personnel Pilot Projects

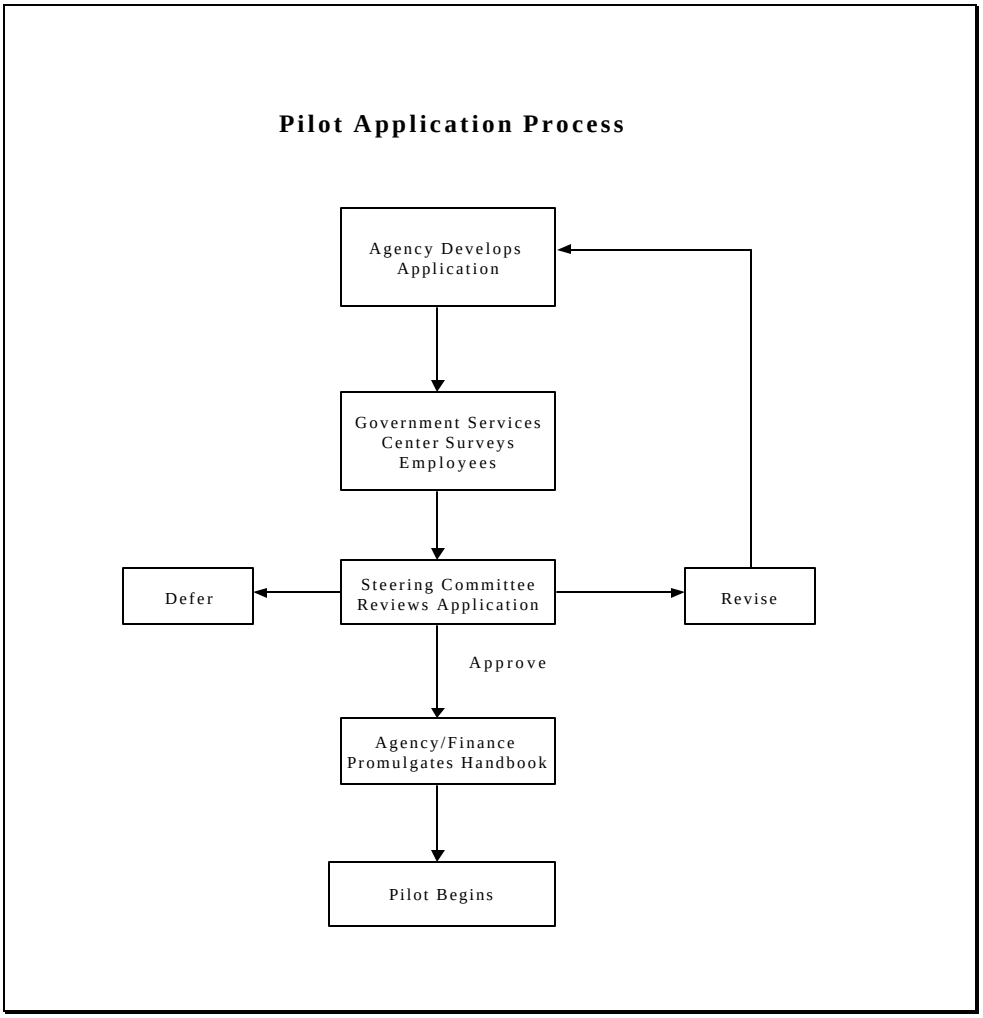
Before beginning a pilot, the agency applying to the Steering Committee was required to demonstrate that a majority of the employees to be affected by the pilot approved of it. Surveys of the employees were conducted by the Government Services Center (GSC). Results of the GSC surveys were reviewed by the Steering Committee before the pilot was permitted to proceed. The head of each agency desiring to create a pilot was also responsible for preparing and submitting new administrative regulations governing the pilot to the Secretary of the Finance and Administration Cabinet. The new regulations were to be in the form of a comprehensive employment manual establishing conditions of employment for employees in each organizational unit affected by the pilot project. The employment manuals were to be promulgated into administrative regulation

and were to contain a clear explanation of the statutes governing employee actions relating to dismissal, suspension, disciplinary fine, layoff, or status, and the reasons employee actions might be taken.

Policies relating to specific implementation of the personnel pilot program were exempted from the provisions of KRS Chapter 18A, the state's personnel law. Sections of 18A specifically addressing conditions of employment and the general lay-off rules and reemployment of employees after termination, however, were not to be suspended[2]. The employment manuals were also subject to approval by the Steering Committee.

The Personnel Pilot Project selection process is detailed in Figure A.

Figure A.



Source: Personnel Pilot Steering Committee

[2] Specifically, the provisions in; KRS 18A.095; 18A.113; 18A.1131; 18A.1132; 18A.130; and 18A.135 were not to be suspended.

10 Pilot Projects Approved and Implemented

The ten pilot projects approved by the Personnel Steering Committee and implemented by their respective agencies varied in scope as well as the topics they addressed. Table 2, below documents the size of the various pilots, ranging from 493 permanent full-time employees in Vocational Rehabilitation, to 16 employees in both the Solid Waste and Abandoned Lands pilots.

Table 2
Number of Permanent Full-Time Employees in Units Applying for Personnel Pilot Projects

Agency	Number of Employees
Disability Determination	220
Kentucky Veterans Center	339
Family Services, Louisville	138
Vocational Rehabilitation	493
Department for the Blind	127
Personnel	115
Revenue Operations	138
Environmental Protection, Water Quality	25
Environmental Protection, Solid Waste	16
Surface Mining, Abandoned Lands	16

Source: Pilot project initial applications

Pilot Projects Discontinued After 1998 Regular Session

SB 221 mandated that all pilots were to expire no later than July 15, 1998, unless the expiration date was extended by statute. During the 1998 Regular Session of the General Assembly, House Bill 633 was introduced to extend the pilot personnel program. HB 633 also contained provisions to move the employee evaluation system from statute

to administrative regulation and to allow for performance awards based upon the generation of federal funds.

The Kentucky Association of State Employees (KASE) lobbied heavily against HB 633. KASE officials told staff that they viewed pilot projects as a way of circumventing merit system protections. Furthermore, KASE officials said that HB 633 would limit the appeal rights of employees and said they feared that placing the employee evaluation system into administrative regulation would allow the Personnel Cabinet to make changes to the evaluation system without a fair and open debate on the issues. After narrowly passing in the House, HB 633 was not taken up by the Senate.

Another bill, House Bill 232, would have extended the deadline on the pilot projects until December 31, 1998, to allow existing pilots to finish out the calendar year. This bill, however, was not taken up by the House and all pilot projects were discontinued by the July 15, 1998, date.

One measure associated with the pilot projects that was adopted during the 1998 Regular Session was House Bill 245. This bill allowed the continuation of the incentive pay program in the Department for Vocational Rehabilitation and the Department for the Blind. These programs were allowed to use federal funds for the Social Security reimbursement program to provide incentive payments to staff who placed clients into jobs at the "substantial gainful activity" level for 9 months.

With the discontinuation of the pilot projects it is important that lessons learned from the oversight process and the individual pilots not be lost. The following chapters will attempt to review these issues and offer recommendations should the Legislature decide to revive the use of pilot personnel projects in the future.

Scope and Methodology

Staff reviewed applicable literature on the development and design of pilot projects, including information from the U. S. Office of Personnel Management (OPM). OPM Demonstration Projects were reviewed to determine the strengths and weaknesses of pilot project design. Social science literature was also reviewed to assess the design

controls necessary to control for alternative causes for change observed in field experiments.

In order to review the innovations included in each pilot, staff reviewed all pilot project applications. Pilot project quarterly reports were also reviewed to determine the effects of the pilot projects over time. Program Review staff interviewed all pilot project coordinators as well as representatives of the Personnel Pilot Steering Committee, Government Services Center, Kentucky Association of State Employees, the Secretary of the Personnel Cabinet, and other interested parties.

Program Review staff attempted to survey employees involved in the individual pilot projects. A pre-test of the survey, however, had a response rate of less than 25%. With such a low response rate, staff found that the expense of a survey could not be justified due to the inability to draw valid conclusions from such a low response.

Staff also contacted the U. S. Rehabilitative Services Administration and obtained data for Kentucky and other states in order to compare the performance of Kentucky's Department of Vocational Rehabilitation and Department for the Blind to national averages. Staff also obtained vacancy data from the Personnel Cabinet in order to validate employee retention rates in agencies implementing various pilots.

CHAPTER 2
WEAKNESS IN THE DESIGN OF PILOT PROJECTS LIMITS EVALUATION OF EFFECTIVENESS

The pilot personnel projects provided an opportunity to experiment with approaches to improving state government, but they were not utilized to their full potential in all instances. The purpose of any pilot program is to test the effects of changes in a small setting before adopting them system-wide. This allows managers to avoid implementation of unsuccessful programs and to refine successful programs before expanding the program throughout an agency or across multiple agencies. In order to accurately evaluate the success of a pilot project, however, rigorous controls are needed. Without rigorous controls the true impact of the changes implemented during the pilots may be difficult to determine and opportunities for improving state government may be lost.

Two essential questions must be answered regarding any pilot:

1) Did change occur?

2) If so, can the change be attributed only to the pilot project, or did some other factor cause the change?

In order to determine the success of any personnel pilot project, the impact of the pilot's changes must be measurable in relation to the pilot's objectives. In other words, did the pilot achieve what it set out to achieve? Additionally, because pilot projects occur in the real world, and not in a laboratory setting, they may be exposed to a variety of other, alternative explanations for change. For example, other management initiatives taking place throughout the Cabinet could cause a general change that might mask or exaggerate the results from changes introduced by the pilot. These other explanations for change must be controlled for, or ruled out, through a carefully constructed and controlled evaluation design.

The use of appropriate evaluation design is necessary for a reliable conclusion regarding the effect of particular features associated with the pilot and is necessary to

rule out many of these alternative explanations for observed effects. The Steering Committee was responsible for monitoring and evaluating all pilot projects, as well as for overseeing the selection of organizational units authorized to participate in pilot programs. To the extent that the Steering Committee did not require rigorous evaluation designs that controlled for the possibility of alternative explanations for observed effects, the Steering Committee lost the opportunity to conclusively demonstrate the effectiveness of many of the pilot projects.

Comparison Groups

The use of comparison groups is a common method for helping evaluators of pilot projects determine if change in outcome measures is the result of the pilot or not. In essence, the use of comparison groups calls for monitoring two similar groups; one the pilot group and the other called the comparison group. The comparison group is not exposed to the factors associated with the pilot. They are, however, exposed to other factors associated with the surrounding environment to which employees in the pilot project would also be exposed. Measurements of each group should be taken before the pilot project begins. After the initial measurement, or baseline, is established, then the pilot project can be conducted. At some later point, or preferably several later points, measurement of both groups is conducted again and the results compared.

The strength of the use of a comparison group is that it allows evaluators of the pilot to rule out external forces in any change exhibited by the pilot group. If the two groups are equivalent to begin with, and if their environment is similar except for the pilot, then this approach provides greater confidence that any difference between the two groups can be attributed to the pilot. Staff found, however, that comparison groups were not generally used when pilot projects were developed and implemented. This greatly limits the ability to determine if the pilot projects were effective in meeting their stated goals, or if other factors caused the change observed in agencies which conducted the pilot projects.

The pilot project attempted by the Personnel Cabinet illustrates the importance of a valid comparison group. Personnel's pilot project involved development of a new employee performance evaluation system. The Cabinet used customer surveys to

establish benchmarks against which to measure performance improvements. While the customer surveys did show an increase in customer satisfaction with the Cabinet, it is not possible to determine the extent to which the pilot project caused this improvement because a number of other changes were instituted in the Cabinet over the course of the pilot. During the pilot time period the Cabinet went through a strategic planning process and restructured many of its processes. The Cabinet also began posting advertisements for vacant positions on the internet to make it easier for customers to search for job openings. The isolated effects of the pilot on improved customer satisfaction cannot be determined.

A comparison group would have allowed some measure of the effects induced by the pilot project separate from those induced by the other restructuring. A comparison group within the Cabinet would have been exposed to the other effects of the strategic planning and the internet advertising, but not the effects resulting from the pilot. By measuring both groups before the pilot started, then measuring them again at various periods after the beginning of the pilot and comparing the measures, it would have been possible to compare the increase in customer satisfaction for the pilot and nonpilot groups. All other things being constant, the difference in the measurements between the two groups would indicate the effect of the pilot on customer satisfaction.

Similarly, the pilot project within the Revenue Cabinet's Division of Revenue Operations indicates the necessity for developing a comparison group. The Revenue Cabinet's pilot incorporated a revision of the personnel classification scheme and the performance evaluation system, and added incentive payments for employees within the division. However, the Revenue Cabinet also instituted other changes during the course of the pilot, including the addition of new technology. Without a comparison group it is not possible to gauge the amount of improvement that resulted solely from the pilot project.

Additionally, while Revenue Cabinet officials felt that the pilot led to some improvement in the division's performance, they were unable to accurately determine the amount of change because they did not have an adequate measurement of the division staff's performance before the pilot began. Pre-pilot measures were developed based on observations of staff performance. However, the individuals who were being observed

knew they were being measured and performed far beyond their normal day-to-day levels. Without an accurate baseline measurement of day-to-day performance prior to the pilot project, it is difficult, if not impossible, to accurately determine the amount of change over time.

Other personnel pilot projects were able to take advantage of comparison groups to demonstrate the improvements generated by their changes. For example, the pilot project in the Cabinet for Health Services' Disability Determination Service (DDS) found a usable comparison group in other states. DDS is fully funded through the Social Security Administration. DDS determiners, staff physicians and psychologists determine the eligibility of Kentucky applicants for two disability programs, Social Security Disability Insurance and Supplemental Security Income. Other states have a function similar to DDS and are also fully funded by the Social Security Administration.

The pilot project within the DDS adopted a new performance evaluation system, incentive rewards for employees, and the use of customer feedback surveys, among other things. Because similar groups in other states perform the same function, but were not instituting pilot projects like those underway in Kentucky, DDS was able to track their improvement by measuring their progress against these other groups that were not undertaking a pilot project. Over the course of the pilot, DDS improved its national ranking in eight performance measures, including improving from 23rd in the nation to 7th in production per work year and improving from 33rd to 12th in the accuracy of initial claims. Measures such as these provide strong indicators that the DDS pilot project produced improvements which can be attributed to the pilot.

Federal Projects Provide Model

The federal government, through the Office of Personnel Management (OPM), has instituted demonstration projects, which are very similar to the concept of personnel pilot projects. Demonstration projects are designed to determine whether a specified change in personnel management policies or procedures would result in improved Federal personnel management. OPM stresses the importance of comparison groups,

noting that comparison is one of the key principles behind the evaluation of project outcomes. The four general principles of evaluation identified by OPM are:

1. **Comparison:** Contrast the project group results to those of a comparison group before and after the implementation of the project innovations.
2. **Manipulation:** Change the factor of interest in the project group
3. **Control:** Hold all other factors constant to help rule them out as a possible explanation of the results.
4. **Generalizability:** Infer the results to the larger population and determine the possibility of application in other areas.

OPM also stresses the necessity of conducting rigorous evaluations of the outcomes of demonstration projects. In fact, the "Demonstration Project Evaluation Handbook," states:

> Past experience has shown that evaluations are resource (time, people, and money) intensive. The combination of high cost and influential nature of the findings demand that as much care be given to designing and conducting the evaluation as the overall demonstration project. Indeed, the resources devoted to planning, implementing and monitoring the project will have been wasted without a good evaluation from which to base decisions about its future.

The evaluation of the outcomes and the eventual success or failure of the pilot projects should have been a concern from the early design of the projects to their eventual completion. Based upon a review of the Steering Committee minutes, it seems as though the primary criteria for approval of personnel pilot projects was the ability to demonstrate that a majority of employees within the affected unit approved of the pilot. This is, indeed, an appropriate concern and one which the pilot project legislation spelled out as a principal concern for the Steering Committee. However, more thought should also have been given to the need to evaluate the effectiveness of the pilot projects. Without the ability to accurately assess the outcomes of the pilots, the Commonwealth wasted a great deal of time and effort.

Comparison Groups Are Not Always Feasible

Despite the advantages associated with the use of comparison groups, it is not always possible to design a pilot project that incorporates the use of comparison groups. A suitable comparison group cannot always be found, or the cost of identifying and measuring comparison groups and pilot groups repeatedly may be considered too high. Additionally, in some instances it may not be equitable to provide certain features to one group of employees, yet withhold them from a similar group. In such cases other methods must be adopted to provide for measurement of the progress generated by the piloted changes. However, comparison groups remain one of the strongest methods available for ruling out alternative causes for the change observed and attributing change specifically to the features of the pilot.

Limit the Scope of Pilots

To allow for the effective evaluation of any pilot project, it is also essential to control the number and variety of features that are being introduced. If a large number of factors are altered throughout the organization, or without strict control, it may become difficult to determine which alterations caused any improvement in the organization's performance. While some pilot projects altered only a few factors, some of the larger pilot projects made a number of changes covering broad areas of the affected agencies. For example, the pilot projects in Vocational Rehabilitation and the Department for the Blind addressed issues including personnel classification schemes, hiring practices, incentive pay for employees, employee performance evaluations and career development, grievance procedures, funeral leave, and political activity. Given these multiple changes it is difficult to determine the effect caused by any particular feature. Only one or two of the particular changes might account for most of the effect, making implementation of the others inefficient, or possibly even counter productive.

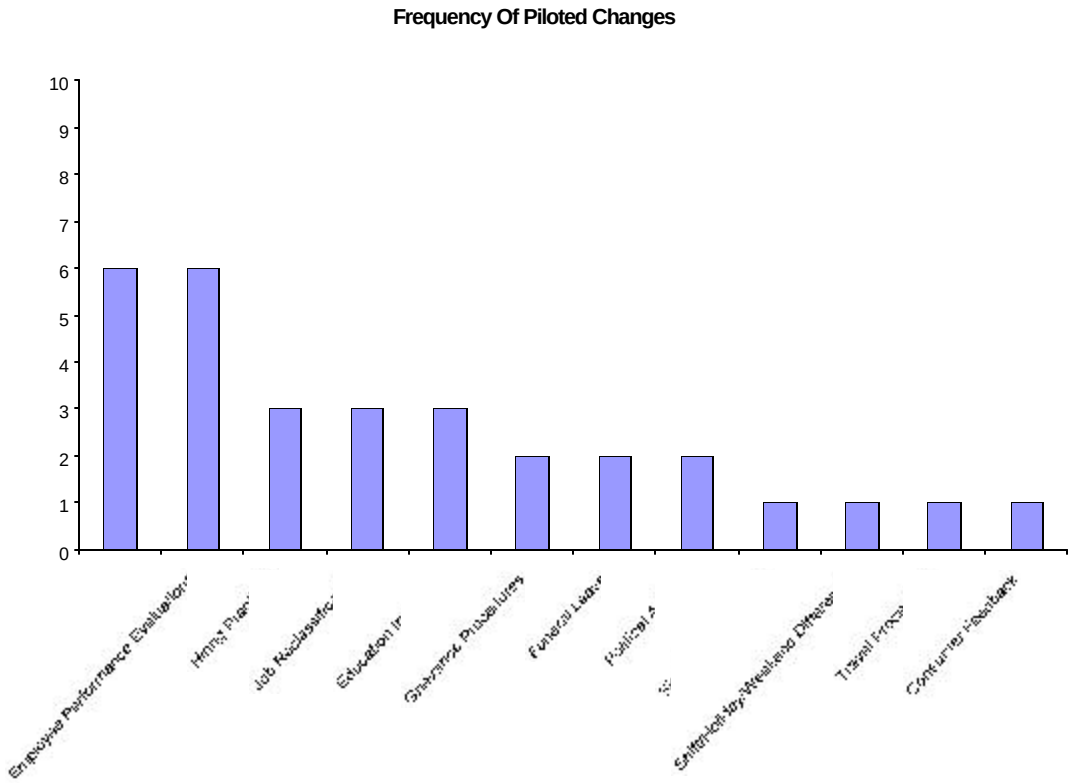
Individuals involved with the Steering Committee and other aspects of the pilot projects told staff that some of the larger pilots simply had too many changes. Projects which changed several different factors risked 'muddying the water,' confusing which of

the multiple factors contributed the most to the outcomes achieved. If ideas developed by the personnel pilot projects are to be considered for broader development across state government, it is essential to understand precisely which factor generates which result. It would not be practical to implement the entire scope of a pilot project across state government if only a single factor led to the majority of the benefits observed.

Limit the Number of Pilots Assessing the Same Factors in Different Ways

Among the 10 pilot projects staff reviewed for this study, six incorporated some type of innovation to the employee evaluation system and six projects piloted different types of employee incentive programs. While these two issues appear to have been of particular concern among managers proposing pilots, pilots were not forced to exclude duplicative issues from the scope of their projects, or to compare their effectiveness against other pilots with similar innovations. Nor did the Steering Committee's final report provide any comparison or contrast between the different employee evaluation systems piloted, or the different methods of providing employee incentives. Figure B provides an overview of the frequency with which the personnel pilot programs addressed particular issues.

Figure B



Source: Program Review Staff from Information Supplied by Individual Pilots

Where several projects attempted variations of the same idea, a comparison of the effectiveness of each would have strengthened the overall effort. Such a comparison, however, would require common measurements across the pilots so that a valid comparison of outcome measures could be performed. In the absence of such up-front planning, it is not feasible to compare the effectiveness of pilots, even regarding the same elements, at this time.

Recommendations

1. **Pilots should be permitted in the future as a method of experimenting with the state's personnel system. Any future consideration of pilot projects, however, should include rigorous up-front planning for evaluating the effectiveness of the pilot project's results, including the use of general principles of evaluation design, and for returning employees to the regular personnel system when the pilot ends.**

The purpose of a pilot project is to try out an idea on a small scale before extending the idea throughout the organization or across multiple organizations. Innovations to the state's personnel system can be tried and, if found to have merit, can be extended throughout state government with reduced risk of unintended consequences. Without an adequate evaluation of a pilot's results, however, the effectiveness of piloted ideas cannot be determined and the merits of extending the pilots cannot be adequately weighed. Any future pilots must be rigorously designed using the best principles of social research methods and the general principles of evaluation design so that the effectiveness of the pilots may be determined.

2. **Any future plan for pilot projects should consider the scope of each pilot and limit the number of changes allowed to promote a better understanding of the pilot's cause-and-effect relationships.**

When a large number of revisions are introduced in a single pilot, it becomes very difficult to determine which factor caused any observed changes in performance. Pilots should be limited to include a manageable number of changes in the operations of the agency.

3. **Any future consideration of pilot projects should limit the amount of duplication among the pilots, while still providing the opportunity to test variations of similar ideas.**

When pilots propose to address similar issues, an oversight body must determine if it is in the best interests of the Commonwealth to address the same issue in more than one manner. Where the oversight body finds it is in the interest of the Commonwealth, comparable outcome measures must be included in each of the pilots involved to promote an effective comparison of approaches.

CHAPTER 3
THE INDIVIDUAL PILOT PROJECTS

Given that the purpose of a pilot is to test the effectiveness of changes in the personnel system, those pilots that generated adequate data to allow determination of their effectiveness were successful as pilots. Those pilots that did not generate sufficient data to allow valid conclusions were not successful as pilots. Some of the pilots that provided the most effective assessment of their results produced limited effects, or demonstrated that the ideas they piloted were not successfully implemented. Generating positive results, however, should not be viewed as the goal of a pilot project. Even pilots that show that their features do not produce the intended results may be considered a success because a flawed idea was ruled out before being expanded to a larger group. The ultimate measure of success for any pilot should rest on how well it provides a reliable assessment of effects in the small setting before it is implemented system-wide. The following section reviews each of the pilots and the degree to which their designs allowed reliable conclusions about their effects on the performance of the agencies in which they were implemented.

Department of Social Insurance, Division of Disability Determination

Table 3 presents a summary of the information regarding the pilot implemented in the Division of Disability Determination (DDS). As noted earlier, those who conducted the pilot in DDS found a usable comparison group in similar departments in other states. This allowed DDS to measure their improvements over time compared to similar organizations that were not implementing features of the pilot. DDS also used customer surveys to gauge possible improvements generated by the pilot. The key feature of the DDS pilot was a new employee performance evaluation system with salary increments based upon the new system. Other features of the pilot were flexible work scheduling, an easing of travel restrictions to allow travel to all Social Security Administration events, and a mechanism to allow employees to provide feedback on the performance of supervisors.

Table 3

Department of Social Insurance, Division of Disability Determinations Frankfort and Louisville	
Scope of Pilot Project	Travel procedures Customer feedback Performance evaluations Incentives
Initiatives	*Travel procedures* • Reimbursed employee travel authorized by the Social Security Administration. *Customer feedback* • Administered a customer survey. *Performance evaluations* • Revised the employee evaluation process to provide a comprehensive evaluation of employee performance and to identify areas in need of improvement. • Established an evaluation of supervisors by employees. *Incentives* • Rewarded employees who received high ratings on performance evaluations 3% to 5% salary increases. *Personalized Work Schedules* Staff allowed option of designing their own work schedule within agency and federal guidelines.
Performance Measures Reported by Pilot	Over the course of the pilot, the Division improved its national ranking on eight performance measures: dispositions; production per work week; adjusted production per work week; comprehensive productivity measure; accuracy, initial claims; processing time, initial DI; processing time, reconsideration; and processing time, initial SSI.
Costs and Savings Reported by Pilot	The Division is funded entirely by the Social Security Administration with federal funds. The average increase in personnel costs was reported by the pilot coordinator to be $2,547.12 per staff member for the two years of the pilot.

Source: Personnel Pilot Project Initial Application and Quarterly Reports

Because other states perform the same function, but were not instituting pilot projects like those underway in Kentucky, DDS was able to compare itself against these other states as one means of evaluating the pilot. As noted earlier, DDS reported that its national ranking improved in eight performance measures, including an improvement from 23rd in the nation to 7th in production per work year; and from 33rd to 12th in the accuracy of initial claims. Measures such as these provide an indication that the DDS pilot produced performance improvements. The ability to compare these measures consistently over the course of the pilot allows an evaluation of the pilot's effectiveness in several different areas. For example, Kentucky's ranking for cost per case rose over the course of the pilot from 16th to 26th in the nation. Salary increments from the pilot were in addition to the annual statewide salary increments. The DDS pilot coordinator

told staff that such cost increases over the long term were simply not feasible. DDS pilot representatives told us that they would not have been able to afford to continue the pilot indefinitely. Thus, long term implementation of the pilot was not feasible, however, the pilot may be viewed as a success because it demonstrated the advantages and drawbacks of the proposed innovations.

Kentucky Veterans Center

The Kentucky Veterans Center in Wilmore is a 300 bed long-term care facility for Kentucky's aging and disabled veterans. The goal of the Veterans Center's pilot was to reduce the employee turnover rate. The pilot instituted a revised employee evaluation system for all employees and a shift differential payment for employees working evenings, nights, weekends, and holiday hours. It should be noted that shift differential pay is a common industry practice in the health care sector.

Table 4

Kentucky Veterans' Center, Wilmore	
Scope of Pilot Project	Recruitment and retention Performance evaluations Incentives
Initiatives	*Recruitment and retention* • Established shift pay differential for staff scheduled to work on off-tour hours. • Established weekend and holiday pay differential. *Performance evaluations* • Established a new evaluation to measure performance more objectively. *Incentives* • Established bonus incentives for exceptional work performance.
Performance Measures Reported by Pilot	Pilot staff reported turnover decreased from 42% to 23% during the pilot.
Costs and Savings Reported by Pilot	*Costs* Differentials $ 446,340 Bonus incentives 565,784 Total **$1,012,124** *Savings* Reduced turnover $ 660,563 Reduced training 469,861 Total **$1,130,424** Net savings **$ 118,300**

Source: Pilot Project initial application and quarterly reports

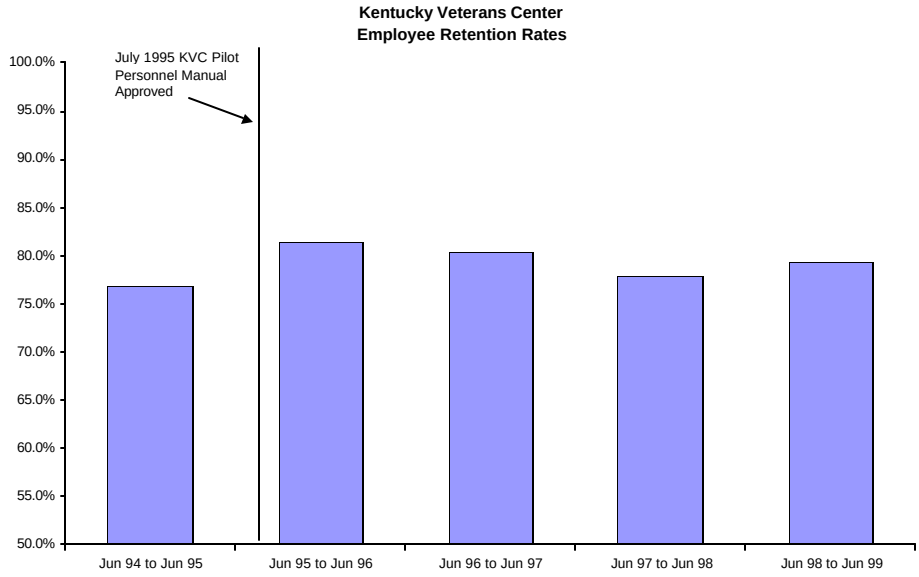
The Veterans Center reported that employee turnover declined significantly over the course of the pilot. In FY 1995, Veterans Center employee turnover was reported to be roughly 42%. By June 30, 1998, at the end of the pilot project, the reported turnover rate was 23%. The Kentucky Veterans Center Administrator has estimated that the reduced turnover rate saved the Veterans Center $1.13 million dollars over the course of the pilot. Savings were attributed to reduced training costs for new staff; however, these savings have not been independently verified.

When Program Review staff reviewed the data for the Kentucky Veterans Center we found that the retention rate for employees was lower before the pilot than at any point during the pilot[3]. The Veterans Center pilot handbook was approved by the Steering Committee in July of 1995. Figure C highlights the changes to retention of overall staff.

When the pilots were required to terminate, the Kentucky Veterans Center was allowed to keep paying the shift differential, although the revisions to the evaluation system were discontinued. The administrator for the Veterans Center indicated that the loss of the evaluation system did not appear to have a major impact. The administrator indicated the turnover rate has held fairly constant since the ending of the pilot. Administrative regulations have since been approved allowing agencies with similar staffing needs to provide a shift differential if the agency has the necessary funding within its budget.

[3] A retention rate tells the percentage of employees who were employed in the Veterans Center at the beginning date that were still employed at the ending date.

Figure C.



Source: Kentucky Personnel Cabinet Data

Though this pilot did not take advantage of a comparison group pre se, it did have the advantage of being able to benchmark against industry standard practices and historical turnover rates. The limited number of changes introduced by the pilot also allows evaluators to focus on two main causal factors. Since the turnover rate has held fairly constant without the continuation of the evaluation system, this provides further support for the contention that the shift differential led to the reduced turnover at the Kentucky Veterans Center.

Department for Social Services, Division of Family Services

Several officials involved with the pilot process who were interviewed by staff pointed to the Family Services pilot in Jefferson County as one of the most successful. As in the Kentucky Veterans Center, this pilot was also intended to reduce employee turnover. In this instance the agency reported that the turnover rate for the 163 employees in the branch office dropped from roughly 21% before the pilot to 5%-8% during the course of the pilot. Though no cost benefit analysis of the pilot was available,

the pilot coordinator told staff that it cost roughly $8,000 to train each new employee. The reduced turnover rate, therefore, could offer substantial savings.

Table 5

Department for Social Services, Division of Family Services Louisville	
Scope of Pilot Project	Hiring and training practices Absenteeism Retention
Initiatives	*Hiring and training practices* • Increased pool of candidates to everyone who passed the social services merit test, not just the top five. • Conducted structured team interviews. • Established a two-month training period at a lower salary to fully train new employees before they began field work. *Absenteeism* • Established a sick leave buy-back program to allow employees to buy up to 37.5 hours of sick leave at 75% of its face value. Employees could not buy down below 150 hours of sick leave. • Established an intermittent employee pool, but did not utilize due to budget constraints. *Retention* • Established a bonus program for outstanding performance. • Allowed working sabbaticals for special projects.
Performance Measures Reported by Pilot	The vacancy rate decreased from 20% to 6% during the pilot. Use of sick time decreased 10.4%.
Costs and Savings Reported by Pilot	The project was reported to be cost neutral. Saving from salary reductions during training were used for bonuses.

Source: Pilot Project initial application and quarterly reports

In order to reduce employee turnover, the Family Services pilot changed the process of hiring new employees. The pilot extended the initial 6-month employee probation period by two months and used the initial two months of the probation period for training before employees were assigned to field work. The salary for those first two months was reduced by five percent. Prior to the pilot new staff began fieldwork upon being hired and scheduled training around their workload. It was reported that staff often took 6-8 months to complete all of their initial training. As a consequence, dissatisfaction among new staff was reported to be high. The pilot process also opened the hiring

process to allow all candidates who passed the placement exam to be considered, rather than just the top five candidates. Candidates who passed the test were interviewed using a team-based, structured interview approach.

The money saved from the reduction of salary during the first two months of the pilot was used to provide an employee incentive program. Employees nominated fellow workers based upon exceptional performance. The incentive program established a committee to review and select among those nominated. Three $100 awards were given each month to employees selected by the committee. Over the course of the pilot, 77 awards were made by the committee. In addition to these changes the Family Services pilot also incorporated a sick leave buy back program. This allowed employees to 'sell' accumulated sick leave back to the agency with the limitations that employees had to maintain a sick leave balance of at least 150 hours and the agency would buy back no more than 37.5 hours per year. This aspect of the pilot was to provide an incentive to employees who had been with the office some length of time and to discourage the inappropriate use of sick leave. Fifty-one employees requested sick leave buy-back during the pilot. Pilot quarterly reports indicate that use of sick time decreased by 10.4%.

Vocational Rehabilitation and The Department For the Blind

The pilots in Vocational Rehabilitation and DFB were two of the most ambitious pilots attempted. Both included

- new employee evaluation systems with a peer review grievance process,
- new job classification schemes,
- the elimination of testing in hiring decisions,
- a funeral leave policy,
- increased political activity by employees,
- incentives for combining or sharing job responsibilities.

Tables 6 and 7 highlight the key features of these two pilots.

Table 6

Workforce Development Cabinet, Department for Vocational Rehabilitation Statewide	
Scope of Project	Personnel classification scheme Hiring practices Incentives Performance evaluations and career development Political activity Grievance procedures Funeral leave
Initiatives	*Personnel classification scheme* • Combined 54 job classifications into three career bands designed to allow for career advancement based on education and experience, *Hiring practices* • Eliminated testing and based hiring decisions on candidates' qualifications. *Incentives* • Established three programs to reward employees for special contributions to the department or educational achievements. *Performance evaluations and career development* • Established a Performance Planning/Review and Career Development Program to review performance based on achievement of objectives and to establish individualized career development plans. *Grievance procedures* • Streamlined the grievance procedure, including peer review and mediation. *Funeral leave* • Allowed employees three days of leave for the death of an immediate family member. *Political activity* • Relaxed restrictions on employee political activities.
Performance Measures Reported by Pilot	75% of employees surveyed found that the pilot improved overall performance of the department. 76% of employees surveyed found that the pilot improved their individual job performance.
Costs and Savings Reported by Pilot	• Implementation of the pilot increased personnel costs approximately $450,000 per year. This increase was funded with federal dollars. • Incentive payments from the Social Security Administration increased revenues for the department. The department awarded $194,950 of this increased revenue to employees, with an average of $533 to each of its 353 staff members. • During the pilot, the department awarded $23,650 to employees as a part of the bonus and incentive program.

Source: Pilot Project initial application and quarterly reports

Table 7

Workforce Development Cabinet, Department for the Blind	
Scope of Pilot Project	Personnel classification scheme Hiring practices Incentives Performance evaluations and career development Political activity Grievance procedures Funeral leave
Initiatives	*Personnel classification scheme* • Combined 54 job classifications into three career bands designed to allow for career advancement based on education and experience. *Hiring practices* • Eliminated testing and based hiring decisions on candidates' qualifications. *Incentives* • Established three programs to reward employees for special contributions to the Department or educational achievements. *Performance evaluations and career development* • Established a Performance Planning/Review and Career Development Program to evaluate performance based on achievement of objectives and to establish individualized career development plans. *Grievance procedures* • Streamlined the grievance procedure, including peer review and mediation. *Funeral leave* • Allowed employees three days of leave for the death of an immediate family member. *Political activity* Relaxed restrictions on employee political activities.
Performance Measures Reported by Pilot	77% of employees surveyed felt that the pilot had improved the overall performance of the department.
Costs and Savings Reported by Pilot	*Costs* Pilot implementation $ 61,123.00 Employee cost savings awarded 16,819.00 Performance awards 4,500.00 Education achievement awards 8,500.00 Total costs $ 90,942.00 *Savings* SFY 1997 Total cost savings $ 34,148.00 SFY 1998 Total cost savings 272,164.90 **Total savings $306,312.90** **DFB retained 50% of total savings $153,156.45** Net Savings $ 62,214.45

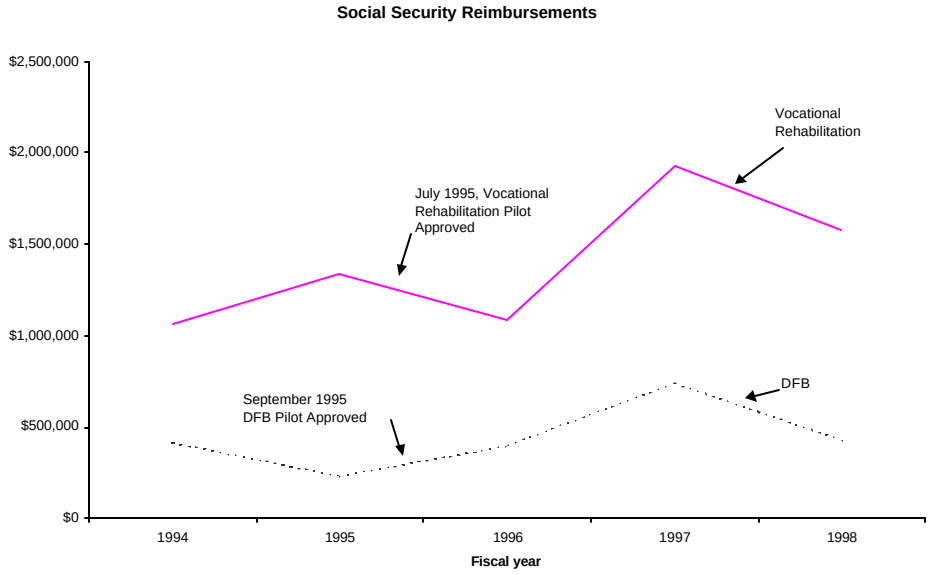
Source: Pilot Project initial application and quarterly reports

Both Vocational Rehabilitation and the DFB serve a similar mission, moving individuals with disabilities or visual impairments to employment and independence. Both agencies have justly pointed out that placing Social Security recipients into gainful employment brings immeasurable improvement to the lives of their clients. The agencies told us that not only does their clients' self esteem increase with their employment, but employment of Social Security recipients also reduces government benefit payments and increases the community's tax base.

Employees were awarded incentive payments for placing hard-to-place Social Security recipients in substantially gainful employment for a minimum of nine months. The Social Security Administration reimburses agencies' costs for placing recipients at this level of employment[4]. The pilots used the proceeds from the reimbursement to fund staff incentive awards. Over the course of the two pilots, these agencies received $4.2 million in reimbursement payments from Social Security. The lack of a comparison group, however, prevents any valid estimate of the proportion of this amount due to the piloted changes and the amount that would have been earned by the two departments in the absence of the pilots. Figure D depicts the amount of reimbursement payments the two agencies received during the pilot period.

[4] Substantial Gainful Activity (SGA) means doing work that (1) involves doing significant and productive physical or mental duties; and (2) is done (or usually done) for pay or profit. For calendar year 1998, the SGA earnings level is $500 per month for non-blind disabled and $1,050 per month for beneficiaries who are blind.

Figure D

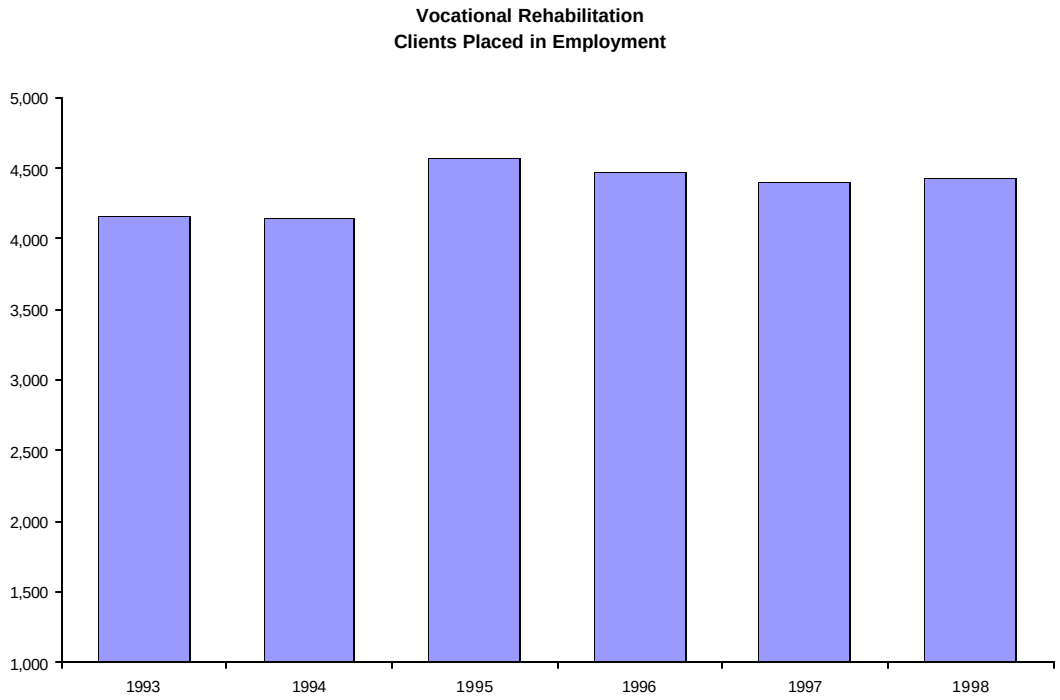


Source: Rehabilitative Services Administration data

HB 245 was enacted by the 1998 General Assembly. This allowed the commissioners of these two departments to continue employee incentive payments from the proceeds of Social Security reimbursements for placing Social Security recipients in gainful employment.

The Vocational Rehabilitation pilot received final Steering Committee approval in July 1995. When staff reviewed positive employment outcomes for Vocational Rehabilitation, however, we found that, after a significant increase in placement in FY 1995, placement tended to drop marginally from FY 1996 through FY 1998.

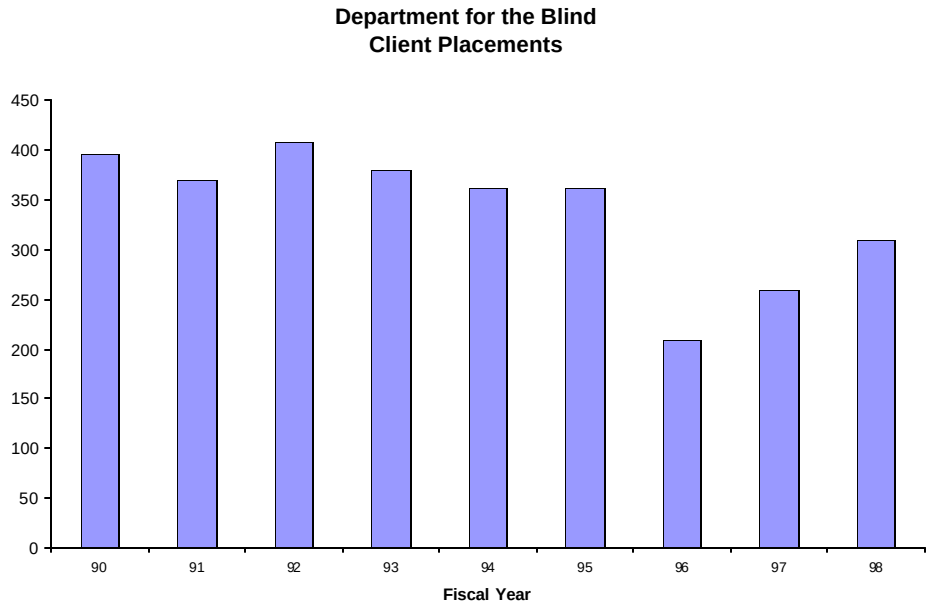
Figure E



Source: Department for Vocational Rehabilitation

Similarly, the DFB placement numbers also declined during the course of its pilot. The DFB pilot was approved by the Steering Committee in September 1995. A major complicating factor, however, was an agency budget crisis that occurred in FY 1995. The budget problems appear to have dramatically affected many performance measures of DFB. Both the number of clients served overall and the number of clients placed dropped significantly in 1996. Figure F indicates the decline in DFB's placement of clients. The overall effect of the agency's budget problems makes it difficult to separate the particular effects of the pilot, especially since DFB did not make use of a comparison group in the design of its pilot. The Commissioner for DFB told staff, however, that the flexibility the pilot offered made it easier to address the difficulties brought about by the budget shortfall. The Commissioner also said that the pilot increased the Social Security reimbursement payments and that, in turn, brought additional funding into the agency during a period of financial need.

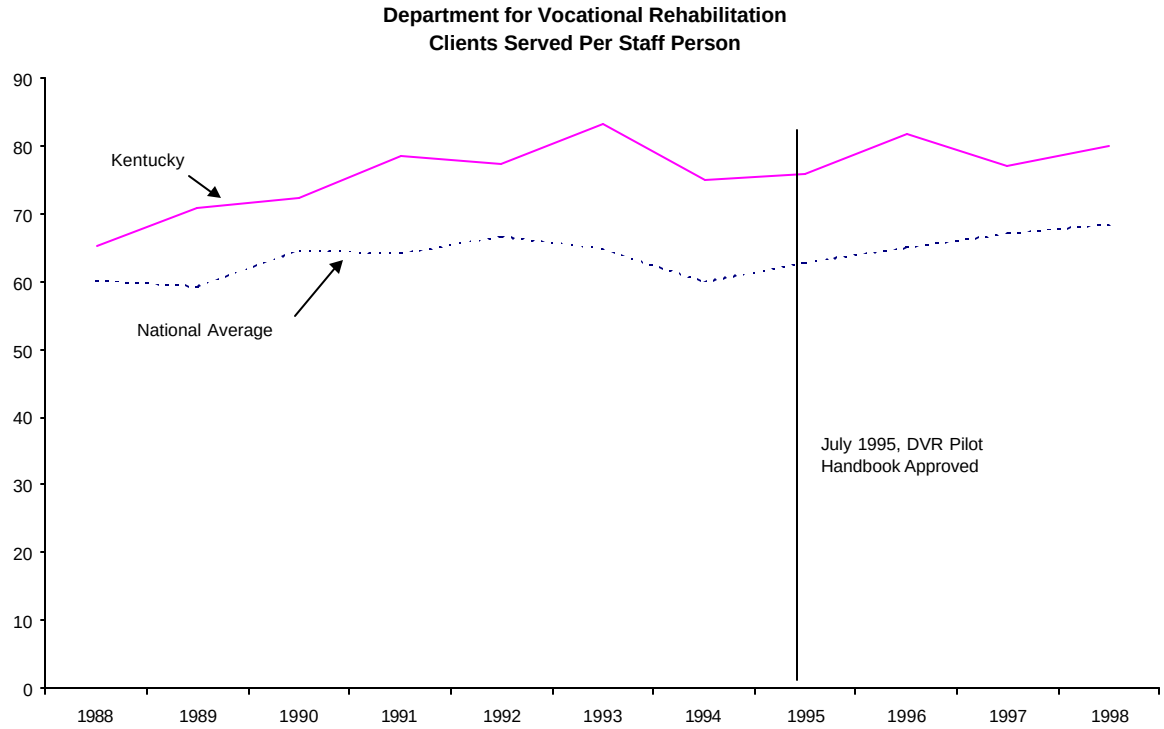
Figure F.



Source: Department for the Blind

Because of the comprehensive nature of the changes involved in these two pilots, staff also examined outcome measures of performance from the two agencies to determine if changes in overall efficiency could be detected after the pilots were implemented. One such measure was a comparison of clients served per staff person. Kentucky's Department for Vocational Rehabilitation was consistently above the national average in clients served per staff person, as indicated in Figure G. However, the data does not seem to indicate any significant change in trend subsequent to the pilot.

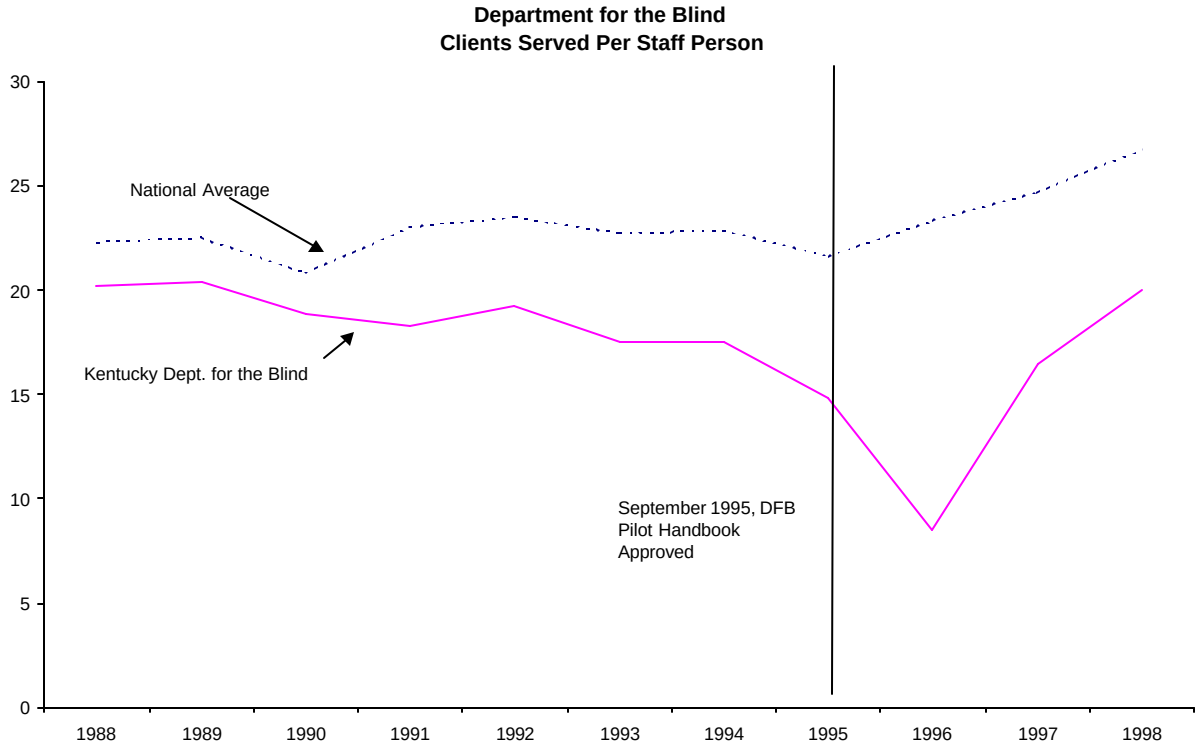
Figure G.



Source: Rehabilitative Services Administration data

Similarly, when the ratio of clients per staff person is examined for DFB, it is difficult to determine the effect of the pilot. Any changes the pilot might have effected in the client to staff ratio is masked by the effect of the department's budgetary difficulties. After the steep declines in 1995 and 1996, the ratio seems to recover, but then tracks to the national average. Without a comparison group that would have been exposed to the same budgetary difficulties but not the piloted innovations, it is not possible to determine the pilot's effect on DFB's efficiency.

Figure H.



Source: Rehabilitative Services Administration data

Representatives for the pilots in Vocational Rehabilitation and DFB indicated that they were also interested in measures of employee and customer satisfaction. However, measures of customer satisfaction by the Vocational Rehabilitation pilot were marred by the use of different survey instruments at different points of time. For example, during the early years of the pilot, customer satisfaction was measured with a mail-in survey that used a 5-point satisfaction scale. Later surveys were conducted by phone and used a 4-point satisfaction scale. The differences in these survey methods makes an accurate assessment of any change in customer satisfaction difficult. Employee satisfaction surveys within the department, which Program Evaluation staff were unable to validate, found 75% of employees believed the pilot improved the overall performance of the department and 76% believed the pilot improved their overall job performance.

Important measures of customer satisfaction in the Department for the Blind, such as rankings of the ability of counselors and the overall rating for DFB services, tended to improve over the course of the pilot. Some other measures, such as the ability/politeness of other staff decreased marginally. Overall, the conclusion of the study of DFB customer satisfaction, conducted by a graduate program in rehabilitation counseling at the University of Kentucky, was that customers were satisfied with their interaction with the DFB employees and the services and outcomes received. In a separate, internal survey of DFB staff in 1997, 77% of surveyed employees indicated they felt the pilot had improved the department's performance. Program Review staff were unable to independently verify the accuracy of this survey.

Other concerns have been expressed about the pilot projects in Vocational Rehabilitation and The Department for the Blind. Representatives of KASE told Program Review staff that they felt these pilots represented an effort to reinvent the personnel system and circumvent hiring system protections. Additionally, two individuals, who wish to remain anonymous, from within one of the departments called staff to express their concerns that the pilot allowed circumvention of the hiring system. However, no formal grievances were lodged with the Personnel Cabinet or the Personnel Board concerning either of these two pilots.

With the large number of innovations being attempted in these two pilots, it is difficult to identify specific innovations that clearly led to improvements in outcomes. Therefore, the innovations that make up these pilots cannot be recommended for further implementation based upon the results of these pilots. However, Vocational Rehabilitation and DFB were the only two pilots that generated personnel cost savings verified by the Steering Committee (See Tables 6 and 7).

The Personnel Cabinet

The pilot in the Personnel Cabinet (at the time of the pilot this was the Department of Personnel) included a new employee performance review process that expanded the number of ratings and required employees and supervisors to determine performance objectives in advance. The process also included a peer-review grievance procedure in the event an employee disagreed with his/her rating. Customer satisfaction

surveys were done as a method of measuring improvements in overall department performance.

Table 8

Personnel Cabinet, Frankfort	
Scope of Pilot Project	Performance evaluations
Initiatives	*Performance evaluations* • Required employees and supervisors to determine performance objectives in advance. Established a peer review reconsideration process.
Performance Measures Reported by Pilot	The Cabinet used customer surveys to establish benchmarks that could measure performance. However, it is not feasible to determine how the pilot project affected performance due to a number of other policy changes the Cabinet instituted over the course of the pilot.
Costs and Savings Reported by Pilot	Not reported.

Source: Pilot Project initial application and quarterly reports

As noted earlier, during the pilot the Department of Personnel also undertook strategic planning efforts, changed a number of policies in the area of applicant counseling and testing, and began advertising vacant positions on the internet. Both the pilot project quarterly reports and project members' discussions with staff underscored that these changes made it virtually impossible to determine whether the pilot or the other policy changes led to changes in measures of customer satisfaction. Without a comparison group, which would have been exposed to the policy changes but not the pilot, staff cannot determine the effectiveness of the elements introduced by this pilot.

Revenue Cabinet, Division of Revenue Operations

The pilot within the Revenue Cabinet's Division of Revenue Operations was intended to improve employee performance and reward deserving staff. The pilot included a new classification scheme for employees (to allow for more levels of advancement), a new method of evaluating employee performance and education, and implemented performance incentive bonuses. Individuals involved with the pilot told staff they were unable to accurately measure performance improvements because of a poor baseline measurement of performance before the pilot started. While managers believe there were improvements associated with the pilot, the absence of an accurate baseline measure of performance makes it impossible to validate this belief.

Table 9

Revenue Cabinet, Division of Revenue Operations	
Scope of Pilot Project	Personnel classification scheme Performance evaluations Incentives
Initiatives	*Personnel classification scheme* • Established the Revenue Processor classification series tailored to employee duties and career paths. *Performance evaluations* • Established an evaluation system based on measurable standards of productivity that can be tracked over time. *Incentives* • Rewarded employees with a 1% salary increment for completing 30 hours of classroom training.
Performance Measures Reported by Pilot	Management feels there was some improvement in performance, but were unable to accurately determine improvement due to a lack of a useful baseline measure
Costs and Savings Reported by Pilot	The total cost of salary increases from classification reallocations and 1% salary increments was $19,700, less than 0.5% of the annual personnel budget.

Source: Pilot Project initial application and quarterly reports

Individuals associated with the Revenue Cabinet pilot also reported problems with the education incentive program that was a feature of the pilot. Members of the pilot project reportedly began taking any classes, whether or not the classes were relevant to their job duties, in order to qualify for the incentive payment. There were also problems that arose due to a conflict between the employees' desire to take courses to qualify for the incentive award, and management's need to staff the division during peak work-load periods.

As noted earlier, the period covered by the pilot coincided with a department-wide business process reengineering effort. This effort was characterized as changing from a functional structure, where units were organized around specific tasks, such as receiving, processing and distribution; to a process-oriented structure where teams completed all aspects of a task; for example receiving a tax form and processing and refunding the taxpayer any amount owed. This substantial change in the way work was performed also served to cloud any conclusions that could have been drawn regarding the pilot. While officials associated with the pilot believe that improvements resulted from

staff being cross-trained in a variety of different jobs, they told Program Review and Investigation staff that they had trouble differentiating between the pilot's effects and those from restructuring the operations of the division.

Natural Resources and Environmental Protection Cabinet

Three individual pilots were approved within the Natural Resources and Environmental Protection Cabinet. Two were in the Department for Environmental Protection; one each in the Water Quality Branch and the Solid Waste Branch. The third project was in the Department for Surface Mining's Division of Abandoned Lands. All three of the Natural Resources pilots were virtually identical. The pilots offered an education incentive bonus of a 3% add-on to base pay after the employee successfully completed 6 college credit hours in an area related to job duties.

Table 10

Department of Environmental Protection, Water Quality Branch Frankfort	
Scope of Pilot Project	Education incentives
Initiatives	*Education incentives* Established a program to reward employees who completed six hours of job-related coursework with a 3% salary increment.
Performance Measures Reported by Pilot	Six employees (25% of those eligible) participated in the program. Participation was not linked to agency performance measures.
Costs and Savings Reported by Pilot	Not Reported

Source: Pilot Project initial application and quarterly reports

Table 11

Department of Surface Mining, Division of Abandoned Lands Frankfort	
Scope of Pilot Project	Education incentives
Initiatives	*Education incentives* Established a program to reward employees who completed six hours of job-related coursework with a 3% salary increment.
Performance Measures Reported by Pilot	Program discontinued due to lack of employee involvement.
Costs and Savings Reported by Pilot	Not Reported

Source: Pilot Project initial application and quarterly reports

Table 12

Department of Environmental Protection, Solid Waste Branch Frankfort	
Scope of Pilot Project	Education incentives
Initiatives	*Education incentives* Established a program to reward employees who completed six hours of job-related coursework with a 3% salary increment.
Performance Measures Reported by Pilot	One (of 2 eligible) employee participated in the program. Participation not linked to agency performance measures.
Costs and Savings Reported by Pilot	Not Reported

Source: Pilot Project initial application and quarterly reports

Few employees chose to participate in the Natural Resources pilots. The pilot in the Division of Abandoned Lands was discontinued due to a lack of employee interest. The pilot in the Solid Waste Branch had one participant and the pilot in the Water Quality Branch had six. With such a small number of participants, it is difficult to draw any conclusions about the success of these pilots. Even if more employees had participated, any successes realized might be simply from the unique nature of the individuals enrolling in the program. For example, it could well be that only the most motivated, hard working individuals signed up for the outside classes. Success could be attributed to their attitude rather than the pilot program. Such a phenomenon is called a self-selection bias and presents a complicating factor in interpreting the results of studies where participants volunteer.

Summary Observations From The Pilot Projects

As noted earlier, a large percentage of the pilots addressed issues of employee performance evaluation and incentive pay for employees. This indicates that there appears to be a widespread concern among managers regarding the state government's current evaluation and salary structures. Program Review staff were told repeatedly by both members of the Steering Committee and members of the individual pilots that the current employee evaluation and reward system is not effective. Should pilot projects be reinstated in the future, the Personnel Cabinet or other controlling authority should examine the feasibility of developing a pilot designed to allow rigorous evaluation of the effectiveness of a limited number of changes to personnel evaluation.

House Bill 268 from the 1998 General Assembly provided funding and direction for a study to examine the current system of classifying and compensating state employees. That study concluded that starting salaries for state employees are too low and that state government has too many job classes. The study also made a number of recommendations designed to resolve the perceived shortcomings in the state's compensation system. As the legislature considers the recommendations, further evaluation of the compensation system may not be in order at this time. Review of the current system of evaluating employee performance, however, remains an option.

Another frequent comment offered both by members of the pilots and by members of the Steering Committee was that quarterly reporting was too often. Coordinators for some of the pilots told us that their pilots simply did not fit into a quarterly reporting framework. For example, pilots with education incentives often had no new data to report for semesters at a time. Other pilots had no new performance data to report and found that they had to submit the same data repeatedly. Should pilot projects be revived in the future, the legislature may want to consider a flexible reporting requirement that is suited to the characteristics of the individual projects. Projects with higher risk should be expected to report more frequently; otherwise, reporting frequency should be determined by the availability of significant new data.

Another concern with pilots is associated with ending the pilots and returning pilot employees to the statewide personnel system. Planning for phasing out pilots and

resuming the customary personnel practices should be included in the initial design of the pilot. Additionally, rules should be established for the event that employee participation is lacking, or it becomes evident that the pilot is not achieving its desired goals.

Recommendations

4. **Any future consideration of pilot projects should include a provision for an impartial, third-party survey of the staff affected by proposed pilots.**

One of the key criteria the Steering Committee focused on for pilot approval was surveys of staff conducted by an independent, third-party entity (the Governmental Services Center). Employees were assured that their responses would be anonymous. Such surveys could also be used throughout a pilot to provide useful information about staff morale and staff assessments of the effectiveness of the pilot.

5. **Any future pilot program should include a rigorously controlled pilot with comparison group measures to assess the effectiveness of a limited number of innovations to the state's personnel evaluation system.**

Revisions to the current method of personnel evaluation and compensation were the most frequently piloted concepts. Members of both the Steering Committee and the pilot projects told staff the current system of evaluating and rewarding employees is not effective. The Governor's Commission on Quality and Efficiency reached similar conclusions in 1993. As changes to the current method of classifying and compensating state employees are considered, a pilot program should be considered that would study changes to the state's current method of evaluating employee performance. Any proposed pilot, however, should be rigorously designed using standard evaluation protocols and should be independently monitored to allow valid conclusions to be drawn regarding the effectiveness of its innovations.

6. **The legislature should consider flexible reporting requirements for any future pilot projects. Reporting requirements should be structured based upon the characteristics of the individual pilots.**

Members of both the Steering Committee and the pilot projects told staff that quarterly reporting was not practical in all situations. Should the legislature consider permitting future pilot projects, it should consider reporting requirements structured to the data availability of each pilot.

7. **Any oversight body for future personnel pilot projects should establish a minimum number of employees required to participate in order for a pilot to be approved. To be effective, pilots should have a sufficient number of employees to allow results to be generalized to the state government as a whole.**

Pilots were intended to provide field experiments whereby innovations could be tried and their effectiveness determined. If effective, these innovations could then be extended throughout state government for the benefit of the citizens of the Commonwealth. Pilots that are too small do not provide an adequate case to determine if the innovations could be extended to a larger population.